

Changes to Business Taxes*

Digest by the Ballot Simplification Committee

Status: Draft for Consideration
On: Tuesday, July 23, 2024
Members: Packard, Anderson, Wong, Wang

Deadline to Request Reconsideration: TBD

The Way It Is Now: The City collects various business taxes on an annual basis including:

- A gross receipts tax that is a percentage of a business's San Francisco gross receipts. Depending on business type, the City determines a business's San Francisco gross receipts based on sales in San Francisco, payroll expenses for employees working there, or both. Rates range from 0.053% to 1.008% and are scheduled to increase in coming years. Rates depend on business type, and higher rates apply as a business generates more gross receipts. For 2024, most businesses with gross receipts up to \$2.25 million are exempt.
- A homelessness gross receipts tax that is an additional tax on businesses with San Francisco gross receipts over \$50 million. Rates range from 0.175% to 0.69%.
- An overpaid executive gross receipts tax that is an additional tax on businesses that pay their highest-paid managerial employee much higher than the median compensation they pay their San Francisco employees. Rates are between 0.1% and 0.6%.
- A business registration fee that is an additional tax. For most businesses the fee is currently between \$47 and \$45,150, based on business type and amount of gross receipts.
- An administrative office tax on payroll expenses that certain large businesses pay instead of these other business taxes. The combined rates in 2024 range from 3.04% to 5.44%, and in 2025 are scheduled to range from 3.11% to 5.51%. Business registration fees for these businesses currently range from \$19,682 to \$45,928.

State law limits the total revenue, including tax revenue, the City may spend each year. The voters may approve increases to this limit for up to four years.

The Proposal: The proposed measure would change the City's business taxes to:

- For the gross receipts tax:
 - recategorize business types, reducing the number from 14 to seven;
 - determine San Francisco gross receipts for some businesses based less on payroll expenses and more on sales;
 - change rates to between 0.1% and 3.716%; and
 - exempt most businesses with gross receipts up to \$5 million (increased by inflation).
- Apply the homelessness gross receipts tax on business activities with San Francisco gross receipts over \$25 million, at rates between 0.162% and 1.64%.
- Modify how the City calculates the overpaid executive gross receipts tax and who pays that tax, and set rates between 0.02% and 0.129%.

**Working title, for identification only. The Director of Elections determines the title of each local ballot measure; measure titles are not considered during Ballot Simplification Committee meetings.*

- Adjust business registration fees to between \$55 and \$60,000 (increased by inflation).
- Adjust the administrative office tax rates for certain large businesses to range from 2.97% to 3.694%, and the business registration fees for these taxpayers to between \$500 and \$35,000 (increased by inflation).
- Make administrative and other changes to the City's business taxes.

The homelessness gross receipts tax would continue to fund services for people experiencing homelessness and homelessness prevention. The City would use the other taxes for general government purposes.

All these taxes would apply indefinitely until repealed.

This proposal would increase the City's spending limit for four years.

If Proposition ___ passes with more votes than Proposition ___, then Proposition ___ would have no legal effect.

A "YES" Vote Means: If you vote "yes," you want to change the following taxes the City collects from businesses: the gross receipts tax, the homelessness gross receipts tax, the overpaid executive gross receipts tax and business registration fees.

A "NO" Vote Means: If you vote "no," you do not want to change the City's business taxes.